MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC4644 – ADVANCED TAXATION

(All sections / Groups)

3rd MARCH 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 15 (FIFTEEN) pages (including the cover page) with 5 (FIVE) Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet.

Question 1 (20 marks)

(a) Magnum Taylor Sdn Bhd ('the company') is registered for the purpose of the goods and services tax (GST) and is on quarterly taxable period. The following information is available in respect of its transactions for the quarterly period 1 October 2017 – 31 December 2017.

	RM
Revenue	
Local sales	462,350
Export sales	132,100
Expenditure	
Local purchases	264,200
Salary and EPF contributions	66,050
Employee routine medical expenses	13,210
Interest on bank overdraft	6,605
Rental – bare rent for residential apartment provided rent free to the company's general manager	23,778
Rental of private motor vehicle for use by the company's general manager	7,926

The company has provided the following additional information:

1. The company only deals with GST registered suppliers and all transaction amounts stated are *excluding* any applicable GST.
2. On 30 December 2017, the company received an advance payment of RM1,000 from a customer, being a deposit for a standard rated supply order. This advance payment, which is non-refundable, has not been included in any of the above supplies. The company completed the order for the said standard rated supply, and raised a final invoice on 2 February 2018. The RM1,000 deposit was set off against this final invoice.

Required:

(i) Explain the application of the time of supply rules to the advance payment of RM1,000 (deposit) received for the standard rated supply on 30 December 2017.

(2 marks)

(ii) Calculate the net goods and services tax (GST) payable by or refundable to Magnum Taylor Sdn Bhd for the quarter 1 October 2017 to 31 December 2017. For each item, clearly identify the type of supply together with the applicable GST. For any item of expenditure where no GST is taken into account, state the reason.

(8 marks)

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(b) Amanah REIT, is a real estate investment trust that is approved by the Securities Commission and listed on the *Bursa Malaysia* (Malaysian Stock Exchange). It makes up its accounts to 31 December annually.

Amanah REIT derives rental income from letting out commercial lots in the mall and ten units of factories in an industrial estate. All of the factories will be used for manufacturing by the tenants.

The income statement of Amanah REIT for the year ended 31 December 2017 is as follows:

Income Statement for the year ended 31 December 2017

	RM'000	RM'000
Rent from malls		9,986
Rent from factories		63
Interest		28
Dividends (Malaysian single tier)		12
Total gross income		10,089
Less: Expenditure		
Audit fee	25	
Depreciation	31	
Management fee	1,011	
Property maintenance charges	993	
Secretarial fee	4	
Trustee administration fee	44	
Other expenses (Note)	750	2,858
Net profit		7,231

Additional information:

(1) The 'Other expenses' of RM750,000 claimed in the accounts are fully deductible for income tax purposes.
(2) Amanah REIT is entitled to an initial capital allowance of RM191,000 and annual allowance of RM56,000 on the factory buildings rented out.

Required:

(i) With reference to the Income Tax Act 1967 (as amended), compute the total income of Amanah REIT for year of assessment 2017 based on the information above.
Note: Label the figures comprising the stages of the computation and indicate, by the use of the word 'nil', any item shown in the income statement which is not taxable or not deductible.

(5 marks)

Continued ...

(ii) State, giving reasons, the tax which will be payable by Amanah REIT for the year of assessment 2017, if it distributes 92% of its total income for the year of assessment 2017 to its unit holders on 15 February 2018.

(2 marks)

(iii) In respect of year of assessment 2017, for unit holders who are resident individuals, state how the distribution will be taxed and whether or not the amount received from Amanah REIT will need to be reported in their annual return. (1 mark)

(iv) In respect of year of assessment 2017, for unit holders who are resident companies, state how the distribution from Amanah REIT will be taxed in their hands.

(2 marks)

[Total marks: 20]

Question 2 (30 marks)

Lam Berhad ('the company') is a company listed on the *Bursa Malaysia* (the Malaysian Stock Exchange) and its principal activity is that of investment holding. In addition, to support the subsidiaries in its group, the company also provides management services to the subsidiaries. The financial information provided by the company for the preparation of its tax return for the year of assessment 2017 (financial year end is 31 December) is as follows:

Lam Berhad
Financial information for the year ended 31 December 2017

	RM'000
Revenue	
Dividend from local subsidiaries (Malaysian single tier)	3,660
Dividend from foreign subsidiaries	1,500
Interest from local subsidiaries	5,600
Fees for management services from subsidiaries	1,120
Other income	
Gain from the disposal of an investment	3,360
Investment balances (No movement during the year)	
Investment in local subsidiaries	89,600
Investment foreign subsidiaries	56,000
Amount owing by local subsidiaries (interest bearing)	123,200
Amount owing by local subsidiaries (non-interest bearing)	11,200

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Other relevant information relating to expenses and capital allowances of the company are as follows:

(i) The direct expenses incurred in respect of the provision of the management services to the subsidiaries are: (a) RM224,000 for staff costs; and (b) RM112,000 for office overheads costs.

(ii) The interest expense incurred for the financial year is RM672,000, of which RM112,000 relates to loans taken from an offshore bank to directly finance the investment in foreign subsidiaries.

(iii) Common expenses incurred during the financial year were RM1,120,000. This amount does not include: (a) RM224,000 staff cost; (b) RM112,000 office overhead costs; and (c) interest expenses mentioned in (ii) above.

(iv) The current year capital allowance available relating to the common assets used in the business operations is RM224,000.

(v) There was an excess of deductible expenses of RM100,000 over gross income in respect of the management source; and RM56,000 expenses in respect of the interest source, respectively, brought forward from the previous year of assessment.

Required:

(a) Determine the tax status of Lam Berhad as an investment holding company using the qualitative test and the quantitative test;

(4 marks)

(b) Explain briefly the tax treatment of a listed investment holding company in relation to the sources of income with respect to expenses and capital allowances; and

(4 marks)

(c) Prepare a tax computation showing the total income of Lam Berhad as a listed investment holding company for the year of assessment 2017, showing all the relevant workings applicable.

[Note: Your computation should reflect the revenue and other income, and where adjustments are not required, to indicate that with the use of the word 'Nil'].

(12 marks)

(Total marks: 20)

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QUESTION 3 (20 marks)

(a) A Malaysian resident company, Mutual Safety Insurance Bhd ('the company') carries on the business of both life and general insurance in Malaysia. The company has furnished the following financial information of its business operations for the year ended 31 December 2017:

Mutual Safety Insurance Bhd
Statement of Accounts for year ended 31 December 2017

		LF RM'000	SHF RM'000	GI RM'000
Income				
Gross premium		66,431	17,717	24,304
Interest income		2,240	196	269
Rental income		2,318	688	943
Dividend (Malaysian single tier)		5,237	40,824	56,000
Sale of shares		5,708	302,400	100,800
Reserve for unexpired risk b/f		736	622	852
	(a)	82,670	362,447	183,168
Less: Expenses				
Net claims incurred		9,051	4,728	6,477
Management expenses		1,661	1,661	5,600
Commissions		2,264	864	809
Cost of shares sold		5,600	48,160	89,600
Portfolio management expenses		187	1,605	2,987
Re-insurance premium		20,646	16,342	1,747
Reserve for unexpired risk c/f		713	920	9,884
	(b)	40,122	74,280	117,104
Profit	(a-b)	42,548	288,167	66,064

Note: LF=Life fund; SHF=Shareholder's fund; GI=General insurance

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The company has provided the following additional information as per the Notes 1-3 below:

Note 1 Capital allowances and losses

	LF RM'000	SHF RM'000	GI RM'000
Capital allowance for YA 2017	2,177	28,266	305
Unabsorbed capital allowance b/f	1,451	20,920	2,226
Unabsorbed losses b/f	78	10,905	4,091

Note: LF: Life Fund; SHF: Shareholder's fund; GI: General insurance.

Note 2 Reserves

It is the company Board of Director's decision to provide a 50% reserve for its marine, aviation and transit policies. The company makes a reserve for its fire, motor and other policies based on actuarial valuations in accordance with Malaysian Financial Reporting Standards 202. The actuarial valuation method is approved under section 60(9) (b) of the Income Tax Act 1967 (as amended) and is consistently applied for the purposes of reflecting the company's actual business operation result. The company has indicated that its reserve for unexpired risk carried forward to the year of assessment 2018 is as follows:

Reserve for unexpired risk c/f to YA 2018	RM'000
Marine, Aviation and Transit Policies (Company provides 50% reserve)	9,010
Fire, Motor and Other policies (Actuarial basis)	874
Total	9,884

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Note 3 Premiums

During a discussion with the company's tax agent, it was established that the gross premiums received and the reinsurance premiums paid, in Malaysia and outside Malaysia, during the year in respect of the relevant policies were as follows:

Types of policies	MAT	FMO	Total
	RM'000	RM'000	RM'000
Gross premiums received	16,544	7,760	24,304
Reinsurance paid in Malaysia	669	431	1100
Reinsurance paid outside Malaysia	431	216	647
Total	1,100	647	1,747

Note:
MAT: Marine, Aviation and Transit policies.
FMO: Fire, Motor and Other policies.

Required:

With reference to the Income Tax Act 1967 (as amended), compute the chargeable income of Mutual Safety Insurance Bhd for the year of assessment 2017.

(12 marks)

(b) The Malaysian CB Banking Berhad ('the bank') is a Malaysian resident bank licensed under the Financial Services Act 2013. The bank has a branch in Chennai, India ('Chennai branch) ; and a subsidiary operation in Thailand (the Thai subsidiary). The bank closes the accounts to 31 December each year.

For the year ended 31 December 2017 the bank has provided the following information as regards to its operation:

Income

(i) Gross income from Malaysian operations: RM133,000
(ii) Adjusted rental income from property investment in Malaysia: RM19,958
(iii) Single tier dividends from investments in Malaysian companies: RM4,400

Expenses

(i) Expenses wholly and exclusively incurred in producing the gross income from the Malaysian banking operations: RM79,844

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Losses

(i) The Chennai branch operations suffered a loss of RM26,600 for the current year.

Capital allowance

(i) Entitlement to capital allowances on assets used in the Malaysian banking business: RM6,653

Subsidiary operation in Thailand:

(i) The chargeable profit was RM300 and after payment of Thai income tax of RM60, the post-tax profit was RM240.
(ii) The Thai subsidiary remitted a sum of RM200 of the post-tax profit to Malaysia and suffered 10% withholding tax on that amount at the point of remittance to Malaysia.

Donations

The bank made the following donations for the year ended 31 December 2017:

(i) A cash donation of RM1,000 to a charitable body in Chennai that is approved under the Indian tax laws;
(ii) A cash donation of RM900 to a Thai Flood Relief Fund which is an approved body for income tax purposes in Thailand; and
(iii) A cash donation of RM10,000 to an approved Malaysian charitable body.

Required:

Compute the chargeable income of Malaysian CB Banking Berhad for the year of assessment 2017 for the purposes of the Income Tax Act 1967 (as amended).

Note:
(i) All figures are in thousands.
(ii) The currencies are stated in RM or its equivalent.
(iii) Round your answers to the nearest RM1.00

(8 marks)
[Total marks: 20]

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QUESTION 4 (20 marks)

(a) Explain briefly the concept of 'Mutuality' and discuss its implications in the context of the principle of taxation.

(4 marks)

(b) The 'Jom Baca Club' ('the club') is registered under the Society's Act, 1966 (as amended). It is made up of members keen on reading and acquiring general knowledge from books and printed materials.

The club's activities include conducting workshops on reading skills and organizing charity events to collect funds to help buy books for poor students in the Kajang District. The club's treasurer, Miss Aishwarya has provided you with the following information on the club's income and expenditure for the year ended 31 December 2017:

Jom Baca Club
Income and Expenditure account for year ended 31 December 2017

	RM	RM
Income		
Subscription from members	163,132	
Entrance fees	34,957	
Sale of books to members	21,186	
Dividends (Malaysian single tier)	200	
Fixed deposit interest	3,000	222,475
Less: Expenditure		
Salaries	19,809	
Utilities	3,496	
Repairs of office equipment	11,652	
Bank charges	8,853	
Book keeping fees	5,297	
Depreciation	1,200	
Donation (approved)	250	50,557
Surplus of income over expenditure		171,918

Required:
Compute the chargeable income of the Jom Baca Club for the year of assessment 2017.

(6 marks)

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(c) The Kampung Jasa Co-operative Society ('the society') was registered with the Registrar of Societies nine years ago. The society caters for the farmers engaged in fruit farming in Sepang. The society deals with products and outputs of the members only and for the year ended 31 December 2017 it has produced the following income and expenditure statement:

Kampung Jasa Co-operative Society
Statement of income and expenditure for year ended 31 December 2017

	RM000	RM000
Income		
Member's subscription	220	
Entrance fees (new members)	55	
Sale of fruits	4,645	
Rent	2,760	
Dividends (Malaysian single tier)	330	
Interest on fixed deposit	5,000	13,010
Less: Expenditure		
Salaries and bonus	144	
Interest on member's loans	56	
Meeting allowances	43	
Travelling	50	
Entertainment	60	
Repairs and maintenance	75	
Donation to an approved institution	200	
Utilities	24	
Depreciation	28	680
Audited net profit		12,330
Less: Obligatory contributions		
Statutory reserve funds	160	
Co-op education trust fund	220	
Co-op development fund	297	
Co-operative development trust fund	283	960
Unappropriated profit for the year		11,370

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The society's treasurer has provided you with the following additional information:

(i) the society has an unabsorbed capital allowance brought forward to the current year of assessment in the sum of RM541,000;
(ii) the capital allowance for the current year of assessment is RM239,000; and
(iii) the unabsorbed loss brought forward to the current year of assessment is RM400,000.

The member's fund as at the beginning of the basis period for the year of assessment 2017 was as follows:

	RM'000
Paid up capital	5,000
Bonus shares (from asset revaluation surplus)	2,500
Statutory reserve fund	14,500
Reserves	9,500
Unappropriated profits	12,500
Total	44,000

Required:

With reference to the Income Tax Act 1967 (as amended), compute the chargeable income of Kampung Jasa Co-operative Society for the year of assessment 2017.

(10 marks)

[Total marks: 20]

QUESTION 5 (20 marks)

(a) What do you understand by 'Tax Planning' and briefly mention the powers of the Director General of Inland Revenue to curtail tax planning activities in the context of the Income Tax Act 1967 (as amended)?

(5 marks)

(b) Yasmin Holding Sdn Bhd ('YH') is a Malaysian incorporated company and has two subsidiary companies, Yasmin Cosmetics Sdn Bhd (YC) and Yasmin Tents Sdn Bhd (YT) in which YH holds 80% of the paid up capital in each of those companies. YH is engaged in the business of providing bridal make up, wedding planning, including photo shoot and honeymoon packages. YC deals with various cosmetic and beauty products and has large losses. YT provides tents, canopies and movable outdoor accommodation. As business is getting very competitive, the Board of Directors of the three companies met in December 2017 to discuss the following matters:

(i) To reduce operating cost, YC will be amalgamated with YT; and YC's cosmetic operations will become part of YH's business;

Continued ...

(ii) YT will venture and expand into mobile homes, including the provisions of getaway accommodation in remote scenic spots ('expansion'). This will be achieved through the acquisition of additional plant, machinery and movable homes ('assets'). The directors are considering various financial options of acquiring these assets including acquisition by way of lease, hire purchase or alternatively a cash purchase with a bank loan facility.

(iii) Raising of additional cash for the expansion and acquisition of assets through the securing of a loan from the directors and major shareholders; alternatively they are considering issuing additional shares to obtain the cash.

The Board of Directors of YH had approached you to advise them on the matters discussed in their December 2017 meeting.

Required:

Based on the information available to you and in relation to the Income Tax Act 1967 (as amended) briefly advise the Board of Directors of Yasmin Holding Sdn Bhd on the income tax implications with respect to the following:

(i) The amalgamation of the business of Yasmin Cosmetics Sdn Bhd with the business of Yasmin Holdings Sdn Bhd;

(ii) The issue of the acquisition of the additional assets and the mode of financing of those acquisition for Yasmin Tent Sdn Bhd; and

(iii) The raising of additional cash for the expansion and acquisition of assets through the securing of a loan from the directors and major shareholders.

(15 marks)

[Total marks: 20]

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Appendix 1

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances shown below will continue to apply for the foreseeable future.

2. Calculations and workings should be made to the nearest RM.

3. All apportionments should be made to the nearest whole month.

4. All workings should be shown.

TAX RATES AND ALLOWANCES [for year of assessment 2017 and subsequent years of assessment]

The following tax rates, allowances and values are to be used in answering the questions.

Resident company

Paid up ordinary share capital	First RM500,000	Excess over RM500,000
RM2,500,000 or less	18%	20-24% *
More than RM2,500,000		20-24% *
Non-residents		
Company		24%
Individual		28%
Labuan entity – income from a Labuan trading activity		
All chargeable profits		3%
Trust body – resident or non-resident		
All chargeable income		24%

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* Reduction in the income tax rate based on the percentage of increase in chargeable income as compared to the immediate preceding year of assessment (provided that the resident company is incorporated under the Companies Act 2016):

Percentage of increase in chargeable income compared to the immediate preceding year of assessment	Percentage point reduction	Income tax rate after deduction
Less than 5.00	Nil	24
5.00-9.99	1	23
10.00-14.99	2	22
15.00-19.99	3	21
20.00 and above	4	20

Goods and services tax (GST)

Standard rate 6%

Capital allowances

	Initial allowance (IA) Rate %	Annual allowance (AA) Rate %
Industrial buildings	10	3
Plant and machinery – general	20	14
Motor vehicles and heavy machinery	20	20
Office equipment, furniture and fittings	20	10

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